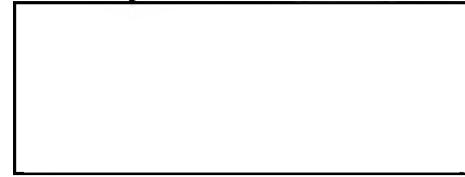


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MIDDLE EAST: Syria threatened to sever relations with Cairo yesterday following the announcement of the Egyptian-Israeli disengagement agreement, according to a press report from Damascus. If the report is accurate, President Asad may have been forced to make the threat by those in the military and Baath Party who strongly oppose negotiations with Israel.

"Authoritative sources" were quoted by the press report as stating that Damascus viewed the disengagement agreement as an act of treachery that would lead to the "liquidation" of the Palestinian question and of Arab interests as a whole.

Asad's position could be seriously weakened by this turn of events. Only a few days ago he seemed ready to enter negotiations. Asad was said to have called a meeting of political leaders to announce that Syria would attend the Geneva conference. To underscore the decision, he reportedly named the Syrian delegation and said he intended to reshuffle the cabinet, presumably to replace those opposing such a move. Most prominent among those rumored to be replaced was Foreign Minister Khaddam, who is said to have threatened to resign rather than represent Syria at the peace talks.

Syria's reaction could pose particular problems for Egyptian President Sadat. He can point to success in the disengagement talks as a counter to militant Arabs who contend that only war can bring progress toward a complete Israeli withdrawal, but without Asad's support Sadat has less of a counter to charges that Egypt is negotiating unilaterally, disregarding Arab interests.

Sadat had already been planning a trip to Damascus, as well as other Arab capitals, presumably to coordinate positions in the aftermath of the negotiations. The trip now takes on added urgency. Egypt clearly regards Syrian-Israeli disengagement as a necessary next step, and views Syrian participation in the broader Geneva negotiations as a key factor in the talks.

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Sadat probably hopes he can convince the Syrians that Cairo does not intend to abandon the Arab cause for the sake of a comprehensive bilateral settlement with Tel Aviv, and that Syrian participation in the coming talks could benefit Damascus.

As yet, there has been no reaction to the disengagement announcement from Saudi Arabia or other Arab oil-producing states. Neither has there been any indication whether it will lead to a lifting of the oil embargo and an increase in production. The evidence suggests that King Faysal may not have made up his mind whether to declare an end to the embargo in conjunction with disengagement on the Egyptian front. The terms and timetable of the accord may be a telling factor in his decision.

Israel views its approval of the accord as a major concession to the Arabs. Tel Aviv will likely regard Cairo's adherence to the agreement as the prerequisite for further steps toward a comprehensive settlement. Although the Meir government conceded that it had to make the first move, it is likely to proceed cautiously in withdrawing its forces from the Suez Canal into the Sinai, constantly alert for any sign that Cairo is not keeping its end of the bargain.

The government has already come under sharp criticism for making the agreement with Cairo. The right-wing Likud--the country's second largest political grouping--is calling for street demonstrations on Sunday to protest the alleged "surrender and one-sided withdrawal." Mrs. Meir's efforts to form a new coalition government will probably not be affected by the agreement. Likud, her major domestic political opponent, is not in the running for coalition membership, and the parties that are do not share Likud's opposition to territorial concessions in the Sinai.

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Moscow quickly issued the text of President Nixon's statement, including the phrase that the disengagement agreement had been reached "with the help of the Government of the United States of America." The Soviets did not, however, report any of the related remarks made by the President. Moscow obviously is not pleased with the fact that it played little or no role in bringing about disengagement. The Soviets, nevertheless, have little choice but to support the agreement as a step toward a Middle East settlement.

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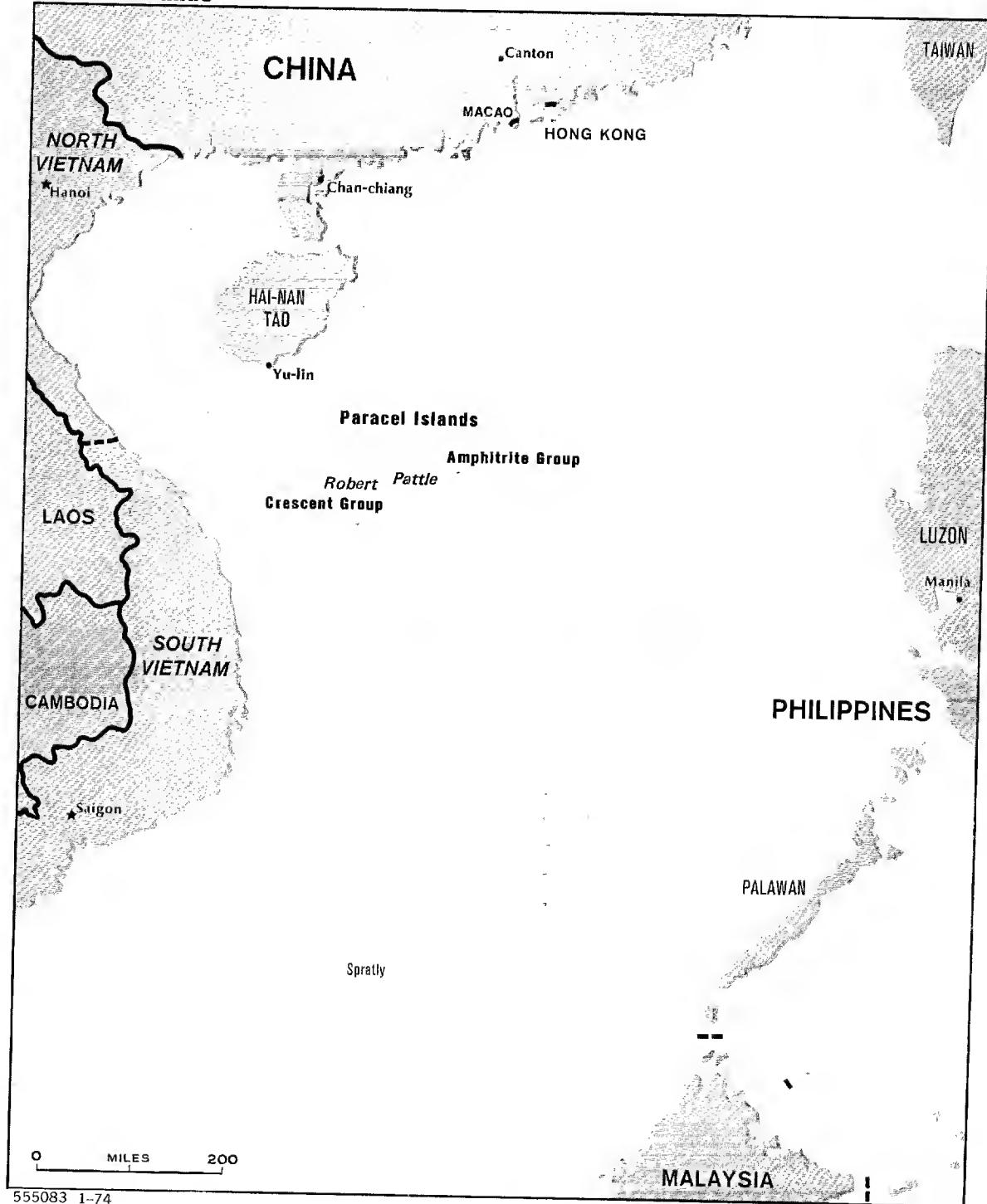
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Paracel Islands



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CHINA - SOUTH VIETNAM: Chinese and South Vietnamese nationals may have clashed on January 16 over Chinese occupation of Robert Island in the disputed Paracel Islands. Saigon reports that South Vietnamese soldiers fired on the Chinese when the latter set up tents and raised their flag over the island. The South Vietnamese also claim that Chinese personnel have landed on two other islands in the Crescent Group of the Paracels.

Both Peking and Saigon have claimed the Paracels and have maintained a military presence on some of them since the mid-1950s. The Chinese occupy the northern Amphitrite Group, and the South Vietnamese the southern Crescent Group.

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The Paracels have strategic and economic importance for the Chinese. The islands are used as radar and weather sites, and their proximity to the main shipping lines of the South China Sea permits surveillance of ocean traffic. Chinese naval units periodically visit the islands

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In recent years, the Chinese have expanded their naval forces in the South Sea Fleet area and have extended the operating area of fleet units. Despite conflicting claims to the islands, the

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Chinese evidently are intent on maintaining their presence there, possibly with a view to developing a forward operating base for South Sea Fleet units.

For its part, South Vietnam has moved in recent years to reinforce the number of troops manning its outposts, particularly on Pattle Island.

Prior to the current incidents, the only tension between Peking and Saigon over this issue occurred in 1959 when the South Vietnamese seized a number of Chinese fishermen in the Crescent Group. They were released several days later.

The renewal of interest in the ownership of the islands may have been prompted by the prospect of finding oil on the islands or under the surrounding waters. As Saigon continues to award concessions to Western oil companies and technology permits exploration of ever-deeper waters, China is being forced to decide how to play its claim to the islands. While the facts of the situation are still obscure, Peking may be interested in testing South Vietnamese attitudes toward the disputed territory.

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INDONESIA: The government has decided to clamp down on dissent in the wake of urban violence in Jakarta this week. The government statement issued after a three-hour cabinet meeting yesterday morning took note of the need for social and economic reform, but at the same time it outlined a new tough stance on dissent:

--demonstrations that can lead to disorder will be prohibited,

--universities will be "protected" from political activities,

--newspaper reporting will be "regulated," and

--those responsible for the recent disorders will be punished.

(This morning, troops occupied the University of Indonesia, and the government shut down three radio stations and a newspaper.)

Although security officials now admit that most of the violence was caused by nonstudent street toughs, they are arresting student leaders as an object lesson. They are publicly blaming the students for starting something they could not control. For their part, the students are appalled at the outcome of the anti-Japanese protests, and many are working closely with the authorities to restore order.

The rapidity with which the protest escalated proves that student criticism of Japanese business practices and of the ostentatious life styles of the Jakarta elite struck a sympathetic chord within the population at large. The subsequent violence, however, may well have canceled out any gains the student movement might have made. The government's new hard line suggests that the violence has also given pause to those few within the ruling group who were beginning to champion the students' cause.

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EC: The EC Council meeting early this week improved prospects for an early decision on the size and allocation of the fund to aid the poor areas of the community. Agreement on the regional fund would permit the EC to deal with other pressing problems, including energy policy, that have been deferred pending resolution of this issue.

The nine foreign ministers discussed various compromises on the regional fund and finally agreed to meet again on January 30 for a session devoted exclusively to the issue. Almost all the compromises involve concentrating part of the regional development funds in the poorest areas of the community--the UK, Italy, Ireland, and Greenland. The remainder of the fund would be distributed more widely, thus satisfying the commission's desire to have all members participate.

Agreement on the precise division of the fund has not yet been reached. Paris suggested allocating only 10 percent exclusively to the poor areas, Luxembourg suggested 100 percent, and other governments suggested intermediate figures.

Resolution of the dispute over the regional fund, which had ended in a stalemate at the meeting on December 18, would "restart the community clock" that was stopped to permit technical compliance with a deadline of January 1, 1974, for implementation of the community's decision to move to a modest second stage of economic and monetary union.

The Nine also discussed the energy problem, but Britain has held up formal moves toward organizing the community's energy market and developing an inventory of community oil stocks until a satisfactory settlement of the regional issue is reached.

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USSR-MBFR: The Soviets are not likely to introduce any major new proposals at the start of the current round of MBFR talks in Vienna, although their tactics may prove flexible.

In their contacts with Western counterparts, Soviet delegates have indicated that Moscow will place particular emphasis on the inclusion of national as well as foreign forces in all stages of reductions. NATO is proposing that there be two stages, the first to cover the reduction of US and Soviet forces, and the second to cover the armies of the European states covered by the agreement. Moscow, worried that this formula would leave the West German Army disproportionately strong, wants a firm understanding that the Bundeswehr would be reduced in a second phase.

Moscow's concern has been heightened by increasing talk in Western Europe about defense cooperation. For the Soviets, this raises the specter of a third force in Europe that includes a West Germany independent of the US and NATO.

The Soviets do not accept the Western concept of asymmetric reductions to reach a "common ceiling" with NATO. They have emphasized the idea that Western inferiority in areas such as ground forces and armor is compensated by superiority in air forces and nuclear weapons. In their comments, the Soviets have reiterated that air and nuclear forces must be included in the reductions.

UK: The government put the ball in the miners' court by announcing that if the miners agree to end their overtime ban, it may relax fuel controls sufficiently to allow industry to go on a four-day work-week.

Prime Minister Heath did not announce any decision yesterday on calling an early election, but government officials are quoted as saying that if Heath's move fails he will call for general elections, possibly for February 14. The latest government move in its confrontation with the miners should strengthen the ruling Tory Party's hand if Heath should call for an election, which then clearly would be fought on the question of who rules the country. On the other hand, if the miners should agree to return to their normal work schedule, the government could decide that no election was necessary now.

During yesterday's parliamentary session, Heath said that he and his colleagues were still considering whether to meet again with the leaders of the Trades Union Congress (TUC) and that they would decide "in due course" whether another meeting was now appropriate. Informal talks between the union leaders and the government, however, were held yesterday. At any rate, a meeting could not be held until next week because the TUC general secretary, who would lead any discussions with the government, will not return to London until Sunday.

Earlier this week, the TUC proposed that the government make the miners a "special case," thereby freeing them from wage guidelines, in return for TUC guarantees of restrained demands by other unions. Heath rejected this proposal, but the Labor Party leader appealed to him to meet again with the union leaders.

If Heath does not call for an election next week, no election will occur until spring because of the technical problems involved in setting up

Ca new voter register, scheduled for mid-February. If the election is held in early February, 18-year-olds who are likely to favor Labor or the Liberal Party could not vote and Heath would minimize the risk that a worsening economic situation would spell his defeat.

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